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EXCISE 6



DEPARTMENT OF STATE

Washington, D.C. 20520

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MEMORANDUM OF CONVERSATION

DEPARTMENT OF STATE A/CDC/MR

REVIEWED BY g DATE 8/7/81
PORTIONS DENIED AS INDICATED

Date: May 25, 1970

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SUBJECT: Posted Price Negotiations in Libya

PARTICIPANTS:

Ess

Esso

James J. Blake, Country Director, AF/N
Roscoe Suddarth, Country Officer for Libya
Warren Clark, Jr., E/ORF/FSE

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Summary.

Mr. Blake
noted that Ambassador Palmer believed it important that
discussions continue with the LARG rather than develop into
a stalemate that could lead to unthinking, unilateral action
by the Libyans. End Summary.

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[REDACTED] Esso's previous presentation to the State Department (on May 12) on the posted price problem in Libya (see State 72332 NOTAL) had been rather general. Subsequently Esso had heard rumors that the oil companies might somehow be able to "split the difference" between their latest position and the Libyan demands in order to come up with a solution. The purpose of this meeting, he said, was to try to dispell any doubts that the companies were able to go any further in their offer than they already had. B4

[REDACTED]

[REDACTED] negotiations with the Libyans had centered on the validity of three criteria used in setting the 1961 posting. These were 1) freight differentials 2) quality and yield patterns and 3) the low sulphur content of Libyan crudes. B4

The freight rate used by Esso in 1961 in setting the posted price was Intascale minus 50% (I-50). [REDACTED] this was used because it was the approximate rate for oil moving in tankers owned by international oil companies at that time. B4

The former negotiating team lead by Minister of Petroleum Mabruuk had claimed that the rate used should have been I-35, rather than I-50. It based its claim on the fact that if one takes the difference in the posted price of crude in the Persian Gulf and the posted price of the same crude delivered by Tapline at Sidon, this amount of money (which represents the transportation differential only) equalizes the posted price of the crudes at the two locations at freight rate of I-35. [REDACTED] the Intascale flat rate (I-0) for transportation between Libya and North Europe is about 40 cents, so that the difference between I-50 and I-35 is about 6 cents (.15 x 40 = 6). B4

[REDACTED] B4

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The current Maghrabi negotiating team, he said, had insisted that the freight rate used should have been I-15 because that was the prevailing AFRA rate in 1961. The AFRA rate is a weighted average of all shipping charges existing at a given moment, not just long term charters for tankers of one given size. If the I-15 rate is used, the 1961 posted price should have been about 14 cents higher ($.35 \times 40 = 14$). Esso, he said, had rejected that argument.

As for actually figuring the Libyan posted price of \$2.21 for 39 degree API oil in 1961, [REDACTED] this was arrived at by taking the posted price of four Middle East crudes - Arabian light (34 degree API); Iranian light (34 degree); both fob the Persian Gulf, plus Arabian light (34 degree) and Kirkuk light (36 degree), fob Sidon and Banias respectively, - adding the transport cost to Rotterdam, subtracting the transport cost from Marsa Brega to Rotterdam, and taking the average of these four final prices. [REDACTED]

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In the recent negotiations, [REDACTED] the Libyans had insisted on the usual 2 cent per degree difference in the posted price. This would mean that everything else being equal, the posted price of 39 degree API Libyan crude would be 10 cents more than the posted price of 34 degree Arabian light crude; the posted price of 40 degree would be 12 cents more than 34 degree, and so on.

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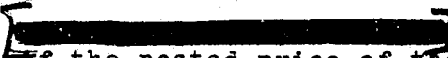
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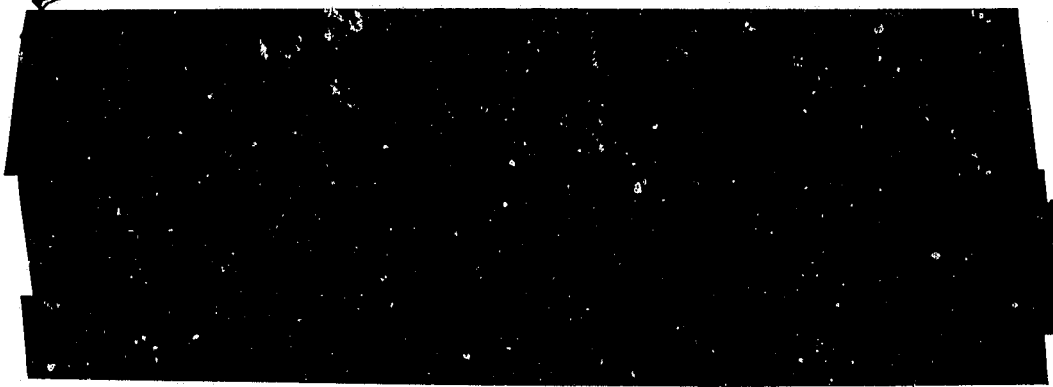
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 Esso has since reasoned that if the posted price of the most comparable Persian Gulf crude to Libyan crude, 34 degree Arabian light, was broken out of the four crudes which were averaged to arrive at the posted price in 1961, it turns out to have a price after 1961 transportation costs have been equalized at 1-50 of five cents below the Libyan posted price. Esso therefore considers that a five cent price difference due to gravity was built into the Libyan posted price in 1961. Esso believes the price difference due to Libya's higher gravity now should be in fact about 10 cents rather than five cents. A five cent increase due to the higher gravity of Libyan crude is therefore now justified. B4

Esso maintains that no increase whatsoever in the posted price is justified because of the lower sulphur content of Libyan crude. Current anti-pollution regulations in Europe only require four or five hundred thousand barrels per day of low sulphur crude and this much is readily available from Nigeria and Algeria as well as Libya.

In sum, Esso is prepared to admit that a posted price increase of about 6 cents because of the transportation advantage and 5 cents because of higher gravity might be justified now for a total of eleven cents.

Mr. Clark asked whether the system  for determining the Libyan posted price reflected any parity in the market value of Libyan crudes in comparison with crudes from other sources. In particular he asked whether the posted price system described equalized the cost to an integrated company of crude delivered in Rotterdam from Libya as compared with the other principle sources of supply. B4

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[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED] Esso last had a negotiating session with the Libyans about two weeks previously, a day or so after Occidental's last negotiating session. When Esso refused to increase its last offer, [REDACTED] Maghrabi had ceremoniously closed the large book in front of him and said that in that case there was no use carrying on the negotiations.

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[REDACTED] asked Mr. Blake whether he thought some agreement could be reached if Esso sent some very high ranking company officer to Libya to make a "last offer".

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[REDACTED] In answer to Mr. Blake's question, [REDACTED] said that such an emissary would only be able to offer slightly more than Esso's last offer of around 10 cents. Mr. Blake replied that under the present circumstances it did not seem likely the Libyans would accept anything less than a significantly improved offer over the last one given the Mabruuk Committee. Mr. Blake noted that he had told Esso representative some weeks earlier that the time had seemed ripe then to decide with a full awareness of all of the consequences involved in the decision whether an offer to the Mabruuk Ministry of Petroleum group should be made. For its own good reasons, the company had decided not to make an offer at that time. [REDACTED] acknowledged that was so. Mr. Blake also commented that he

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had relayed to Esso Ambassador Palmer's belief that urgent negotiations be continued as soon as possible so that positions not become frozen. He expressed particular concern that the Libyans might get themselves locked into a position from which they could not break out without some dramatic gesture.

Mr. Blake said the idea was being raised of sending a very high level person who because of his prestige might have access to Qadaafi or even Nasser in order to try to see if the ice could be broken in the negotiations. Mr. Blake said names such as Robert Anderson, George Woods, and Robert MacNamara had been mentioned.

[REDACTED] the Libyans were increasing pressure on the companies in a number of places. They have demanded an increase in port charges of about one cent per barrel in Tobruk and would probably do so in Marsa Brega soon. B4

[REDACTED] B4

[REDACTED] B4

Clearances: AN/N - Mr. Blake^e
AF/N - Mr. Suddarth^e

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